



Nancy S. Grasmick  
State Superintendent of Schools

200 West Baltimore Street • Baltimore, MD 21201 • 410-767-0100 • 410-333-6442 TTY/TDD

March 31, 2004

The Honorable Thomas V. Miller, Jr.  
President of the Senate

The Honorable Michael E. Busch  
Speaker of the House of Delegates

Maryland General Assembly  
Annapolis, Maryland 21401-1991

RE: Annual Report on Current Progress of Baltimore City Public Schools

Dear President Miller and Speaker Busch:

This letter meets the requirement of Section 4-313(b)(1) of the Education Article of the Maryland Annotated Code that the State Board of Education and the State Superintendent annually provide comments to the General Assembly concerning managerial and educational progress in the Baltimore City Public School System ("BCPSS"). On behalf of the State Board, the State Superintendent and her staff have reviewed the 2003 Annual Report of BCPSS (**Attachment I** to this letter), which includes financial statements ending June 30, 2003 and detailed status reports on the implementation of *Master Plan II (2003-2008)* during the period January 1, 2003 through December 31, 2003. Our comments are based on those reports and on additional information garnered from ongoing interactions between MSDE staff and the leadership and staff of BCPSS.

### ***The Budget Crisis***

As of the writing of this letter, the Baltimore City Public School System is laboring under a \$58 million cumulative deficit and an accompanying cash flow crisis that is destabilizing the System and threatening to derail its academic progress. In last year's letter to the General Assembly (see letter dated February 12, 2003), we reported that BCPSS' then cumulative deficit of \$22.2 million was projected to grow to approximately \$53 million by year-end in the absence of significant cost containment measures. At that time, the BCPSS Board took remedial steps, publicly committing itself to a series of measures designed to reduce the in-year deficit to approximately \$7.4 million, which would have limited the end of year cumulative deficit for FY 2003 to approximately \$30 million.

*Failure to Implement Cost Containment Measures.* When the FY 2003 books were closed out in the late summer and early fall of 2003, it became evident that BCPSS management had not implemented many of the adopted savings measures and that other cost overruns had occurred. The end of year cumulative deficit stood at \$52 million and would later be readjusted by BCPSS' auditors to \$58 million. Within weeks of the FY 2003 close-out, it was determined that the situation was even more dire. Former Senator Robert Neall, on loan to the School System's new CEO Dr. Bonnie Copeland, conducted a budget variance analysis in October 2003 and discovered

that projected savings of \$21 million that the BCPSS Board had built into its adopted and published *FY 2004* budget were not being realized. In fact, due to the overhiring of new teachers during the summer months, a lower number of retirements than had been projected and a failure to implement proposed staff reductions, the System's payroll deficit was increasing at the rate of \$2 million per month.

*New Cost Containment Measures.* In November and December 2003, with the backing of the State Superintendent, the State Board and other stakeholders, the BCPSS Board of Commissioners and Dr. Copeland began to implement three phases of major cost containment measures intended to halt the System's financial slide and begin reducing the cumulative deficit. These measures are detailed in full in Attachment III. In Phases I and II, approximately 800 personnel positions were eliminated, with more than half coming from administrative positions in the central office. Because these and other measures did not take effect until mid-year, it appears that the resulting savings will only be sufficient to counteract the additional deficit accumulated in the first six months of the year -- in other words, to maintain the cumulative deficit in the \$58 million range as of June 30, 2004.

*Emergence of a Cash Flow Crisis.* It had been the hope of the Board to achieve further savings in the current fiscal year in order to begin reducing the cumulative deficit before June 30, 2004. BCPSS presented three alternative proposals -- a salary reduction, furloughs or lay-offs of up to 1200 teachers -- that would have generated an additional \$13 - 16 million in savings by the end of the year. The Baltimore Teachers Union rejected the wage concessions and furloughs and to date the System has not proceeded with the lay-offs or unilateral salary reductions. Against this backdrop, it was revealed in early February that the System's deficit issues had finally caught up to and overtaken its cash flow position -- meaning that a major infusion of cash would be needed before the end of the fiscal year in order for the System to maintain solvency in the face of payroll and other payment obligations. A deal brokered between the Governor and the Mayor would have yielded a State loan of approximately \$42 million to BCPSS to be paid back in installments over an 18-month period. Additional loans of \$8 million from the City and \$8 million from the Abell Foundation would have yielded a total of \$58 million to address the cash flow crisis. The State loan was conditioned upon the establishment of an interim five-person governing board that would serve in place of the Board of School Commissioners until December 31, 2005 and, during that time, have sweeping authority to modify or abrogate contractual provisions and institute other cost containment measures necessary to achieve fiscal solvency for the System. This proposal was poised for introduction to the General Assembly in early March. However, on March 9, 2004, the Mayor withdrew his support for the proposal and offered the School System a local loan assistance package.

*Baltimore City Loan Assistance Package.* Under the Mayor's plan, which was approved by the Baltimore City Board of Estimates on March 17, 2004, the City has withdrawn \$42 million from its own rainy day fund (reducing that fund down to approximately \$14 million) and advanced it to BCPSS to assist in addressing immediate cash flow demands. The loan, which is memorialized in a Memorandum of Understanding (MOU) between the City and the Board of School Commissioners, requires the System to repay \$34 million within approximately 120 days (by August 2, 2004) and the balance of \$8 million by June 30, 2006. The quick repayment term on the \$34 million portion of the loan is driven primarily by the City's need to replenish its rainy day fund to meet concerns of the City's bond rating agencies. However, the quick repayment also

means that the School System will continue to require major cash flow assistance at critical points during the period in which it is striving to eliminate the overall budget deficit. For this reason, it is likely that BCPSS will be forced again to seek help from the City and possibly from private funders such as the Abell Foundation. It is not clear whether, and under what circumstances, BCPSS would return to the Governor or the General Assembly for special assistance with its cash flow obligations. It is worth noting that the State remains the chief source of overall dollars for BCPSS and that the funding of the Thornton formula will further enhance that support.

*Fiscal Operating Committee.* In return for the loan assistance being provided by the City of Baltimore, BCPSS has agreed to the establishment of a three-member Fiscal Operating Committee, which will consist of a person appointed by the Mayor, a representative of the current Board of School Commissioners and the City Finance Director. In addition, a designee of the Baltimore City Council and a designee of the State Superintendent of Schools will serve as ex-officio members. The Memorandum of Understanding between the City and BCPSS (see **Attachment II**) calls for the Fiscal Operating Committee to oversee the development and implementation of a financial recovery plan to achieve fiscal solvency for the System on or before July 1, 2006. The plan, which BCPSS is required to submit to the Fiscal Operating Committee by May 30, 2004, must include the following specific elements:

- A new internal budgetary process;
- A schedule for the reduction of the structural deficit;
- A plan for further cost savings measures that are to take effect before and after the close of the present school year;
- A schedule for weekly School Stat review meetings to be attended by senior BCPSS officials and Mayoral designees;
- Monthly close-out reports submitted to the City Finance Director and the City Council;
- Quarterly progress meetings between the City Finance Director and senior BCPSS finance officials;
- Regularly scheduled financial hearings with the Baltimore City Council, convened by the Council President, to monitor progress in reducing the BCPSS deficit.
- An affordable, downsized staffing model for BCPSS based on projected attrition, monitored at regular quarterly meetings with the Fiscal Operating Committee. If desired attrition fails to materialize, a corresponding number of layoffs will be implemented prior to the start of the 2004/2005 school year.

The Fiscal Operating Committee will not supplant the duties and responsibilities of the current BCPSS Board of School Commissioners and will not have the extraordinary powers of the governing body that was envisioned in connection with the State assistance package. The Committee's primary function will be to monitor BCPSS' implementation of the financial

recovery plan. As indicated, that plan must go well beyond short-term loans. The loans are designed to meet an immediate cash flow crisis. They do nothing to reduce the cumulative budget deficit of \$58 million. That must come from enforcing the cost containment measures already implemented – for example, the staff reductions implemented in January 2003 should yield a full-year savings of approximately \$30 million in FY 2005 – and insisting upon other measures as necessary. BCPSS has committed itself to reducing the cumulative deficit by 60% in FY 2005 and 40% in FY 2006.

### ***Origins of the Deficit***

**Attachment III** to this letter shows the history of the BCPSS deficit since the beginning of FY 2000 and summarizes the explanations for the deficit that have been provided by BCPSS management. These include numerous cost overruns (e.g., in the area of information technology, consulting contracts, transportation), a failure to accurately project staffing needs (which was aggravated by the continuing unavailability of an automated position control system), the School Board's well-intentioned implementation of new academic programs (e.g., expanded summer school, academic coaches) without the discipline to implement cut-backs on other expenditures, and the burden of a structural deficit created by salary and benefit increases that far exceeded the revenue yielded by a declining enrollment. Had BCPSS accurately projected its enrollment, it might have taken steps to mitigate the structural deficit, but the System has consistently overstated the enrollment projections (this past year, by as much as 3000 students). The accumulation of these various problems to begin with, combined with the failure to take appropriate remedial action once the problems were discovered, reflects a complete breakdown in management systems and financial controls.

*Ernst & Young Findings.* Recently, as a follow-up to the July 2003 report of the Greater Baltimore Committee / Presidents' Roundtable (see **Attachment IV**), Ernst & Young completed a systems review for BCPSS that examined budget preparation, budget monitoring, financial management and the management information systems related to these functions. Many of the findings from this review are consistent with internal control weaknesses cited by the School System's independent auditors, Thompson, Cobb, Bazilio and Associates. The Ernst & Young report is included with this letter as **Attachment V**. Ernst & Young's findings include the following:

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With respect to the ***budget preparation function***:

- No formal budget process has been developed, communicated or executed;
- The budget roll-up and preparation has not been deployed as a management tool;
- A significant portion of an individual department's budget is not controlled by that department's manager (e.g., costs charged to a dept.'s budget may not be incurred in that dept.)
- Budget revisions are often not communicated to the department managers; and
- Positions are budgeted at average cost without any tie back to the expected actual cost of all positions so budgeted.

With respect to the ***budget monitoring process***:

- Department managers have devised their own systems to monitor budget components they control and take no responsibility for the rest of the departmental budget;
  - Consistent financial numbers are not produced to measure results;
  - Monthly financial results reporting is not timely nor defined;
  - Useful reports to management on financial performance are not produced; and
  - There is no training for the use of financial information that is available.
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With respect to the ***financial management process***:

- Department managers are not held accountable for their department's financial results and they are not responsible for personnel decisions (hiring, termination or salaries) for employees reporting to them;
- Budget changes are not always communicated;
- There is no benchmarking against similar systems; and
- Departments do not work together as a team to manage the BCPSS resources.

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With respect to the ***management information systems***:

- The new HR system has implementation issues and will not resolve as many issues as expected;
  - IT controls over eliminating non-budgeted or over-budgeted spending are not present; and
  - The management information system has significant internal control issues that must be identified and corrected.
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*Replacing "Culture of Complacency" with Culture of Discipline.* Ernst & Young has provided extensive recommendations for addressing the problems identified in its systems review. Many of these relate to inculcating a greater fiscal discipline within BCPSS. For example, the report concludes that senior management must:

- Require Department managers to be accountable for operating within their approved budget;
- Establish the disciplinary actions and penalties to be imposed against those department managers that do not take responsibility for their financial results or that spend outside of their approved limits; and
- Make financial management a part of the requirement for management positions and make the lack of financial management grounds for demotion or termination.

These recommendations seem obvious, but for too long BCPSS has suffered from what the GBC report affirmed is a "culture of complacency" with respect to finance and budget policy – a sense that financial policies and procedures do not have to be adhered to or respected.

*Capacity and Competency.* We note that this appropriate demand for financial discipline – to the point of demoting or terminating those who do not comply with fiscal controls – ultimately points to the issue of capacity. BCPSS must recruit and retain highly competent and experienced financial personnel that have the ability to implement the desired budget and financial management regimen. These managers must be given the authority to enforce fiscal discipline. Finding such talent will continue to be difficult and the System's various stakeholders must be ready to offer as much support as possible. The City of Baltimore has recently advised the School System on establishing a "SchoolStat" process to monitor key financial and management benchmarks. It is imperative that the System's response to the GBC and Ernst & Young recommendations be evidenced in the SchoolStat process, in the key management strategies of the Master Plan, in the System's daily transactions and in the evaluation of BCPSS managers.

*Internal Auditing Capacity.* One critical area where BCPSS has experienced capacity issues is in its Internal Audit Department. In November 2002, the System's Independent Auditors, Thompson, Cobb, Bazilio and Associates noted that the Department ranks last in internal audit staffing capacity compared to other Maryland school systems. The System's recently submitted Master Plan indicates that budget constraints may delay addressing this issue. We advise against a delay. If confidence in the System's financial management is to be restored, the internal auditing function cannot be given short shrift.

*Individual Wrongdoing.* We can well believe that the capacity, competency and discipline breakdowns described above are the chief culprits for the current fiscal crisis facing the School System. However, it is important to consider whether any individual misconduct or wrongdoing may have contributed to the situation. Therefore, the State Superintendent has appointed a special three-person panel to investigate whether wrongdoing by any individual or individuals within key management units of the central office administration may have contributed to the creation of the current BCPSS deficit or to a lack of adequate disclosure about the extent of the deficit. The panel's report, which is due by May 15, 2004, may include the recommendation to refer findings of possible criminal misconduct to appropriate governmental authorities for further inquiry.

### ***Oversight of BCPSS***

In the wake of BCPSS' financial crisis, there has been a renewed interest in exactly how the Baltimore City Public School System was restructured under SB 795 and in particular where the oversight responsibilities resided after that restructuring.

*Pre-795.* Prior to the passage of SB 795 in 1997, the Baltimore City Public School System functioned as an agency of Baltimore City and the members of the Board of School Commissioners at that time were all appointed by the Mayor of Baltimore City. Major operations of the School System, including financial operations, were performed by City government and were subject to the same approval mechanisms as other City agencies. For example, procurement was subject to approval by the Board of Estimates of the Baltimore City Council. Legal affairs of the System were handled by the Baltimore City Solicitor's office, etc.

*Transfer to Independent Board.* As a result of SB 795, the affairs and operations of the Baltimore City Public Schools were placed under the authority of a newly constituted, independent Board of School Commissioners, whose members were appointed jointly by the Mayor and the Governor from a pool of candidates recommended by the Maryland State Board of Education. Having the school system constituted under an independent board was intended to make it more analogous to the structure in other Maryland jurisdictions. In addition, the legislation provided that ultimately all of the real property assets of the School System held in title by the City of Baltimore would be transferred to the control of the Independent Board of School Commissioners – again, to be consistent with the approach used in other jurisdictions.

*Continuing City Oversight.* Under SB 795, neither the City nor the State has direct ongoing control over the affairs of the School System (although, under Section 4-304(b)(3) of the Education Article, the CEO of the System is a member of the Mayor's cabinet). By the clear provision of the statute, responsibility for the School System's affairs falls squarely upon the

Board of School Commissioners and the professional management it engages to administer the System. The Mayor and City Council do have the same kind of authority that other local governments have with respect to the school system budgets in their jurisdictions. Section 5-102 of the Education Article of the Maryland Code requires the Board of School Commissioners to submit its annual budget in writing to the Mayor and City Council no less than 45 days before the date for levying local taxes or on an earlier date on or after March 1 as may be requested. The Mayor may then indicate in writing, and with supporting reasons, a denial or reduction of categories in the submitted budget. A special provision, at Section 5-106, also requires the Board of School Commissioners to submit to the Mayor and City Council on or before November 1 and March 1 of each fiscal year a detailed expenditure report indicating any action of the Board that could lead to overspending in any major expenditure category. The same provision applies to Anne Arundel County.

*Continuing State Oversight.* The Maryland State Board and the State Superintendent have the opportunity on an annual basis to review the BCPSS Master plan and, as noted above, MSDE does receive financial information from BCPSS of the kind that is submitted by all Maryland jurisdictions on an annual basis – e.g., locally approved budgets and audited financial statements. In addition, under 4-313(a) of the Education Article, MSDE receives a special year-end report from BCPSS, which includes audited financial statements and a discussion of Master Plan implementation. When major financial issues have come to light, MSDE has acted quickly to investigate. Since 1997, MSDE has conducted audits of the System in various areas, including finance, procurement and information technology. The two independent reviews of the System, particularly that performed by Westat in December 2001, also yielded important information and recommendations. In January 2003, when evidence of the ballooning deficit first came to light, we joined with the Mayor and the School Board to engage the Greater Baltimore Committee and Ernst & Young to conduct a thorough review of the System's finances.

*Board and Management Responsibility.* Because the goal of the General Assembly was to have BCPSS operate like its counterparts around the State, SB 795 did not craft a role for either the City or the State in the day-to-day management of the School System's financial affairs. That responsibility resides in the Board of School Commissioners and the professional management engaged by the Board to administer the System. Had sufficient oversight been exercised at that level, the rapid fiscal deterioration experienced by BCPSS since the end of FY 2003 might well have been prevented.

*Court Oversight.* Not surprisingly, the recent fiscal issues in BCPSS are a concern to Judge Garbis of the federal district court and Judge Kaplan of the Baltimore City Court as they consider the implications for the consent decrees entered in the *Vaughn G.* and *Bradford* litigation. By joint order issued on March 11, 2004, both courts have requested that the City of Baltimore, the Maryland State Department of Education and BCPSS provide proposed long-range plans for the fiscal and academic management of the System.

### ***Student Achievement***

Sadly, the turmoil of BCPSS' fiscal crisis has drawn attention away from the important strides in student achievement made by the System since 1997. Table 1 below tracks that progress on the now-retired MSPAP test – progress that was particularly pronounced in the early grades. The

positive impact of the reform effort is clear. The table also shows that BCPSS continued to gain in 2001, but then dipped in 2002, the last year of MSPAP and a year in which State averages also declined.

**Table 1**

MSPAP -- Percent at Satisfactory [State Std. = 70%]	Partnership in Effect					State 2001	State 2002	# BCPSS Schs. Above State Avg.
	BCPSS 1994	BCPSS 1997	BCPSS 2000	BCPSS 2001	BCPSS 2002			
3 <sup>rd</sup> Grade Reading	9.2	11.8	18.5	17.4	12.4	36.5	30.7	6 / High 45.9*
3 <sup>rd</sup> Grade Writing	16.0	14.6	26.9	29.7	21.9	48.1	38.4	11 / High 58.1*
3 <sup>rd</sup> Grade Math	12.4	10.8	14.3	20.4	12.8	37.8	28.7	17 / High 70.3*
*Roland Park ES								
5 <sup>th</sup> Grade Reading	10.0	13.0	19.9	21.8	18.4	44.6	42.1	5 / High 59.8**
5 <sup>th</sup> Grade Writing	13.6	14.0	19.9	24.5	22.9	42.7	41.3	7 / High 57.3**
5 <sup>th</sup> Grade Math	13.3	13.6	20.5	23.0	19.4	42.6	39.8	12 / High 82.3**
**Mt. Royal ES								
8 <sup>th</sup> Grade Reading	5.4	8.1	8.5	9.6	10.9	26.6	23.6	5 / High 41.2
8 <sup>th</sup> Grade Writing	15.3	17.1	26.2	28.5	27.6	50.1	42.1	7 / High 62.3
8 <sup>th</sup> Grade Math	9.4	10.0	14.8	14.3	13.5	47.0	35.2	5 / High 61.1

Table 2 shows results from the first time administration of the Maryland School Assessment (MSA) in 2003, which establishes a new scoring baseline for BCPSS students. Under the requirements of the federal No Child Left Behind Act, one hundred percent of Maryland students must achieve proficiency or better on the MSA by the year 2013-2014. Baltimore City students are far from meeting this standard. Table 2 shows the handful of BCPSS schools, by Free and Reduced Meal category, that achieved or exceeded the State average for proficiency or better.

**Table 2**

MSA -- Percent at Proficient or Advanced	BCPS Avg. 2003	MD Avg. 2003	# of BCPSS Schools Exceeding State Avg.	FARMs 0 – 20%	FARMs 20.1 – 40%	FARMs 40.1 – 60%	FARMs 60.1 – 80%	FARMs 80.1 – 100%
3 <sup>rd</sup> Grade Rdg	39.1	58.1	11/ High 82.4 (Roland Park)	Roland Pk	Mt. Washing. Midtown	Hamilton E/M Medfield	Hampden Armistead Glenmount Waverly	Langs.Hughes City Springs
3 <sup>rd</sup> Grade Math	41.9	65.1	11/ High 91.9 (Roland Park)	Roland Pk	Midtown Mt. Washing.	Fr.Scott Key Medfield Hamilton E/M Violetville	Glenmount Armistead Thomas Jeff. Thomas John.	Arlington Dall. Nicholas Coldstrm Pk.
5 <sup>th</sup> Grade Rdg	44.4	65.6	9/ High 84.8 (Mt. Wash.)	Roland Pk	Mt. Washing. Midtown	Woodhome Hamilton	Waverly	City Springs Harlem Pk Bentalou
5 <sup>th</sup> Grade Math	31.2	55.0	10/ High 67.6 (Waverly)	Roland Pk	Midtown	Violetville Medfield	Waverly Thomas John.	Harlem Pk KIPP Ujima Cecil Jms Mosher
8 <sup>th</sup> Grade Rdg	32.8	59.9	9/ High 83.3 (Midtown)		Midtown Woodhome	Hamilton E/M Roland Pk Violetville	Ashburton Fr.Scott Key Hazelwood	Dickey Hill
8 <sup>th</sup> Grade Math	11.5	39.6	2/ High 53.8 (Violetville)			Violetville Roland Park		
10 <sup>th</sup> Grd Rdg	28.5	61.3	5/ High 95.9 (Poly)	Balt.Sch. Arts	Poly Western	City College Dunbar		



The new High School Assessment offers more evidence of the huge challenges that face BCPSS students. In 2003, BCPSS' passing rate was last among all jurisdictions in English, Biology and Algebra and third from last in Government. See Table 3. There was some consolation in the performance of a number of the System's City-wide high schools.

**Table 3**

<b>2003 HSA Passing Rate</b>	<b>English I %</b>	<b>Biology %</b>	<b>Govt. %</b>	<b>Algebra %</b>
<b>State of Maryland</b>	39.8	54.3	60.2	53.2
<b>Baltimore City Public Schools</b>	17.7	26.7	42.0	22.5

<b>Baltimore City College</b>	60.7	81.0	92.0	69.0
<b>Baltimore Polytechnic Institute</b>	69.4	78.7	95.5	75.9
<b>Baltimore School for the Arts</b>	64.6	85.5	91.3	52.1
<b>Western</b>	53.4	49.8	90.4	49.0

### ***Impact of Cost Containment Measures on BCPSS***

As BCPSS braces for the challenge of meeting adequate yearly progress on the MSAs and improving its graduation rate in the face of rigorous new high school assessments, it is fair to ask how the imposition of cost containment measures will impact the "classroom." It would be naïve to suggest no impact. The lay-offs of temporary employees who have played a role in supporting classroom teachers and counseling students can be disorienting to a school, particularly in the short run. Even where the lay-off of teachers is minimized, the turmoil of a fiscal crisis can lead many to consider other options outside the System and, typically, it is the best who will leave. For these reasons, it is critical that BCPSS' partners act to stabilize the financial situation as soon as possible.

With respect to the dramatic reduction in administrative personnel in the central office (in January, approximately 370 staff were laid off), the impact on the classroom is harder to judge. Overstaffing of administrative positions in BCPSS has long been a concern to the State. In last year's report to the General Assembly, we detailed various structural issues within the System and noted that the bureaucracy at North Avenue "has been slower to reform than other parts of the System and much too often acts to impede, rather than support, the efforts of principals and other school-based personnel." In light of that, a major reorganization of the central office – including some lay-offs – may have been long overdue. The challenge for management is to redesign the remaining core administrative structure so that it will effectively support reform efforts in the schools. If that can be accomplished and the current fiscal situation stabilized, there is every reason to believe that a focused academic program will continue to improve the achievement of Baltimore City students.

### ***Bringing Heightened Academic Accountability to BCPSS***

**Corrective Action.** When the 2003 MSA scores for Baltimore City were released – showing that, despite earlier gains, too many of the City's schools continue to languish – the State Superintendent and the State Board of Education took swift action. In July 2003, based on newly adopted COMAR regulations designed to implement the requirements of No Child Left Behind, the State Board designated BCPSS as a "system in corrective action" and mandated that the Board and management of BCPSS implement initiatives in the following six areas: (i) curriculum

alignment, (ii) professional development, (iii) the recruitment and retention of highly qualified teachers, (iv) an emphasis on instructional leadership in the evaluation of principals, (v) the establishment of a special CEO district for low performing middle schools and (vi) the establishment of a special CEO district for neighborhood and innovation high schools.

*Master Plan Review.* On July 1, 2003 and then again on October 1, 2003 (in order to incorporate the corrective action requirements of the State Board), BCPSS submitted Master Plan II, its strategic plan for the period 2002-2008, which was drafted to meet the requirements of the Bridge to Excellence in Public Schools Act, the No Child Left Behind Act and HB 853 (the new City-State Partnership Legislation). MSDE conducted a peer review of the plan in October 2003 and prepared initial comments to the plan. In November 2003, Dr. Bonnie Copeland, Chief Executive Officer for BCPSS, withdrew Master Plan II from consideration by the State Board in order to incorporate necessary cost containment measures into the document.

Dr. Copeland submitted a revised Master Plan II to MSDE on February 9, 2004 and the Master Plan Review Panel further evaluated the plan for compliance with the *Bridge to Excellence* standards. The panel commended BCPSS on its responses to earlier comments, the overall design of the plan and the tremendous amount of time and effort devoted to the plan development by key staff in the System. However, the panel also expressed concern about (i) lack of specificity in both curriculum and professional development, (ii) lack of capacity for recruitment, retention and certification of highly qualified staff, (iii) lack of specific strategies for targeting schools identified for improvement, corrective action and restructuring, (iv) the need for an ongoing public engagement plan and (v) lack of specific strategies for a systemic approach to gifted and talented education. Based on these findings, the State Board decided at its February 25, 2004 meeting to defer approval of the plan and require BCPSS to submit a revised plan by August 16, 2004, addressing these deficiencies. The Board did approve the release of all federal title funds based on the finding of MSDE's technical review team that the BCPSS plan was in compliance with the federal requirements. That said, we caution that BCPSS expenditure of federal dollars will continue to be scrutinized, which could result in additional financial exposure for the System.

*MSDE recommendations for academic focus.* There is obvious overlap in the corrective actions mandated by the State Board in July 2003 and the more recent findings of the MSDE Master Plan Peer Review Panel. Combining these perspectives, we recommend that BCPSS bring immediate and sustained attention to the following ten areas of academic accountability. We would expect to see these items prominently featured in the revised Master Plan that BCPSS submits in August 2004.

- Curriculum and Professional Development. BCPSS must ensure that its curriculum is aligned with the Voluntary State Curriculum and that high quality professional development reinforces that alignment. The implementation of a curriculum in BCPSS that is not aligned with the Voluntary State Curriculum would result in instruction that omits the essential content standards and core learning goals established by MSDE. In addition, the need for alignment is critical if students with disabilities are to have a real opportunity to access the rigor of the Voluntary State Curriculum. At MSDE's request, BCPSS has commissioned an outside curriculum audit as well as a review of its professional development capacity. The results of

these studies must be quickly and meaningfully integrated into the BCPSS instructional program.

- Effective Use of Assessments. BCPSS must ensure that school instructional staff have timely and complete access to assessment results from the MSA and the HSA and are trained to use those results in designing and modifying student instruction.
- Highly Qualified Teachers – Recruitment and Retention. BCPSS must ensure that its recruitment activities attract candidates that will meet the No Child Left Behind requirement that all teachers be highly qualified by school year 2005-2006.
- Highly Qualified Teachers – Certification. BCPSS must ensure that existing teaching staff acquire and maintain certification status that meets the No Child Left Behind requirement that all teachers be highly qualified by school year 2005-2006. According to 2002-2003 data, 32.7% of Baltimore City teachers are on conditional certificates.
- Principal Evaluation. BCPSS must ensure that instructional leadership is the central criterion for evaluating principal performance. BCPSS principals need to be evaluated based on their content, knowledge and skills to establish a school culture focused on teaching and learning. Since “what gets measured gets done,” it is critical that principals are given specific instructional leadership measures for which they are being held accountable.
- CEO District – Middle Schools. BCPSS must develop a structure and plan for the establishment and administration of a dedicated special district for low-performing middle schools. The lowest performing middle schools need the focused work and attention of an Area Academic Officer who will ensure regular and consistent support, guidance, and specific actions regarding student achievement. A direct report to the Chief Executive Officer will ensure that ongoing, systemic, and concentrated assistance is provided and in a timely manner.
- CEO District – High Schools. BCPSS must develop a structure and plan for the establishment and administration of a dedicated special district for neighborhood high schools and innovative high schools. Again, the lowest performing schools need the special attention of a dedicated Area Academic Officer who will report directly to the CEO.
- School Improvement. BCPSS must provide high quality, ongoing technical assistance and support to schools identified for improvement, corrective action, and restructuring. We note that on March 1, 2004 the System provided MSDE with specific strategies for schools in the category of restructuring. However, all schools in improvement status need a plan to increase student achievement.
- Stakeholder Involvement. BCPSS must ensure the continuous and meaningful engagement of parents and other community stakeholders in the implementation of key Master Plan strategies. Parent and other public involvement is an important

element in student achievement. If parents, in particular, are engaged in school planning and are involved in school-related decision-making, they provide the critical link between school and home necessary for students to sustain energy around learning.

- Gifted and Talented Education. BCPSS must develop and implement a systemic approach for gifted and talented education services. With BCPSS' continuing efforts to increase the achievement of students who are not mastering content standards and core learning goals, there needs to be assurances that students who are gifted and talented are identified with clear and consistent criteria, that there is curriculum to meet their needs, and that there are resources to assist the teachers in implementing the curriculum.

The Maryland State Department of Education stands ready to bring both pressure and support to the School System to ensure that there is a sustained focus on the academic initiatives outlined above. Since the passage of SB 795, MSDE has provided a wide range of technical assistance to BCPSS designed to improve student achievement. Last year alone, MSDE staff made more than 3000 visits to Baltimore City schools, offering instructional support and guidance to principals and teachers. In addition, MSDE assisted BCPSS at the System level on critical issues of curriculum, instruction and professional development. For example, MSDE participated in two major task force activities, helping to shape recommendations relating to the performance based evaluation system and the promotion and retention policy.

*Performance-Based Evaluation System.* In September 2003, the BCPSS Board took long-awaited action on the Performance Based Evaluation System (PBES). In its evaluation of the School System in 2001, Westat had determined that teachers were chafing at the demonstrated student achievement portfolio and that there was widespread resistance to its use. The principal criticism of the portfolio was not that it required documentation of the teacher's attention to student achievement, but rather that it was overly prescriptive as to the format that documentation should take. Based on recommendations developed by a Task Force involving numerous BCPSS stakeholders, the Board adopted a new evaluation instrument that eliminates the portfolio as a stand-alone domain and redistributes the emphasis on student achievement throughout the remaining four domains. While the overall instrument still requires further strengthening, we believe that it represents an improvement over the original PBES and will enhance the commitment of teachers to their own professional development.

Under the new system, the initial planning conference assumes even more importance than before. It is the occasion for the teacher and evaluator to discuss and agree on the teacher's plans to increase student achievement, the kind of achievement data the teacher will consult and *the kind of documentation the teacher will maintain relevant to student performance.* We have recommended to the System that it incorporate into its training regimen on the new instrument a video simulation of an initial planning conference. Along with samples of different documentation approaches (including the traditional portfolio), this can be an invaluable tool for teachers *and* administrators.

*Promotion/Retention Policy.* In August 2003, Dr. Grasmick and Dr. Copeland jointly convened a Task Force to conduct a thorough review of the BCPSS Promotion and Retention Policy. This

review was prompted by a variety of issues, including the fact that the standardized test then being used as a criterion in the promotion decision – the TerraNova – was not in alignment with the new voluntary state curriculum or the Maryland School Assessment (MSA). In addition, based on the prior year's experience, many parents had expressed concern that the policy was overly rigid and did not properly account for extenuating circumstances.

Recently, the BCPSS Board adopted a series of changes to the Promotion Policy, many of which came from recommendations of the Task Force, which met regularly over a six-month period. Of most immediate consequence, the System will no longer administer the Terra Nova test in any grade and therefore its use as a factor in the promotion decision will cease. This decision acknowledges that the Terra Nova is not well-aligned with the new Voluntary State Curriculum and its continued use would only serve to distract teachers and students from focusing on that curriculum and on the MSAs (which are aligned). Instead, in Grades 1 and 2, the System will administer the Stanford 10 assessment and will use a cut score on the reading portion as one of the factors -- along with passing grades in reading and math -- that will determine promotion.

In Grades 3 through 8, the Board anticipates future use of the MSA as a promotion criterion, but for the coming year has decided to take a hiatus from the use of any standardized test in the promotion decision. For this one year, the promotion decision will be based on grades alone. The reasons for the hiatus are compelling. First, scores from the MSA in Grades 4, 6 and 7 will not be available in time for the promotion decision (although in future years, they will be available). While MSA scores will be available earlier for Grades 3, 5 and 8, BCPSS needs more time to develop an appropriate cut score – one that teachers and parents understand and support -- before it begins using this test as a criterion in the promotion decision.

The Board took heed of parents' concern that the school-level Student Support Teams (SSTs) did not have sufficient flexibility to recommend promotion in special cases. The Board agreed that, going forward, the Student Support Team should be allowed to present documented compelling reasons why a student who has not met all applicable standards should nevertheless be promoted. Our understanding is that the SST will be encouraged to consider multiple academic and non-academic factors in making any such recommendation. The Task Force also recommended, and the Board adopted, a multiple retention policy, which would allow a student who had been previously retained to advance to the next grade, notwithstanding a failure to meet the promotion standards. We believe that there is good reason to promote under these circumstances given evidence that multiple retentions, particularly at higher grade levels, contribute to student drop-out.

*Interventions.* Throughout the discussions of the Promotion Policy Task Force, the companion issue of interventions appropriately was a frequent topic. Going forward, this issue is one that deserves special focus. We urge the System to give equal consideration to academic and non-academic interventions. For example, a number of schools have instituted a program called Positive Behavioral Interventions and Supports (PBIS), which is having a significant positive impact on student achievement even though it falls in the category of "non-academic."

We caution that interventions only make sense in the context of a foundational program that is sound and focused -- where quality of instruction is at the core of all classroom activity. In that vein, it is imperative that the System make job-embedded, site-based professional development

for teachers one of its highest priorities – with an emphasis on connecting that support to the particular classroom experience of individual teachers.

### ***Special Education***

***Compliance.*** In the area of special education compliance, BCPSS recently petitioned the federal Court for relief from the *Vaughn G.* consent decree that has governed the System's delivery of special education services for the last twenty years. Judge Garbis has entered an order of Stay on the petition until the System's financial situation is stabilized. When the 2002-2003 school year concluded, there was disagreement among the parties regarding which of the various required compliance outcomes have been met. Subsequent efforts to effect a revised Implementation Plan have been unsuccessful and BCPSS has been implementing the 2002-2003 approved Implementation Plan. We do note that BCPSS has completed six of fifteen outcomes to the Court's satisfaction. Outcomes 3, 4, 7, 8, 9, 11, 13, 14 and 15 remain unresolved, although BCPSS is making steady progress on most of these. BCPSS continues to implement Quality Assurance Audits and provide technical assistance to school staff as necessary. At the same time, MSDE has begun implementing its own Enhanced Monitoring for Continuous Improvement and Results process to provide oversight and technical assistance to BCPSS. This process includes a review of policies and procedures, a variety of audits and record reviews as well as on-site interviews and classroom observations.

***Instructional Integration.*** The disaggregation of special education data from the 2003 MSA administration highlights the massive instructional needs of students with disabilities in BCPSS.

<b>BCPSS Special Education Performance -- Percent Scoring at Proficiency or Better on the 2003 MSA</b>	<b>Reading</b>	<b>Math</b>
<b>Grade 3</b>	15.3	18.5
<b>Grade 5</b>	17.8	11.0
<b>Grade 8</b>	4.6	0.5

BCPSS' Master Plan seeks to preserve the key initiatives that are designed to improve the performance of special education students. However, any reductions to the regular education programs will impact students with disabilities who are served in these programs. In other words, instructional integration of special education with regular education will only yield benefits if the regular education program is strongly aligned with the Maryland content standards and all teaching staff are receiving high quality professional development around the new Voluntary State Curriculum.

### ***Property and Facility Issues***

***Transfer of School Properties from Baltimore City to BCPSS.*** SB 795, passed in 1997, called for transfer of real property assets -- land and school buildings -- from Baltimore City to BCPSS. In 2002, through HB 853, the General Assembly reiterated this goal and directed Baltimore City and BCPSS to accomplish the transfer of certain properties by June 30, 2003 (those where part or all of the property was funded by at least \$1 million in debt issued by Baltimore City after July 1997) and all remaining properties in equal annual portions through June 30, 2009 (with the cost of the transfer to be born by Baltimore City). To date, no properties have been transferred. The

process was initially delayed by discussions of how to handle school properties where community recreational centers are located. Subsequent delays have come from discussions about which entity has responsibility for removing environmental safety hazards that may exist. Following staff-level discussions that did not lead to action, a meeting was held with Dr. Grasmick, representatives of the Mayor, a board member, the Office of Attorney General, and the Executive Director of the Public School Construction Program (PSCP). We understand that Baltimore City is finalizing a plan for the transfers, which will be submitted to MSDE and the PSCP. It was also agreed that the Mayor's Office will be represented at future quarterly meetings.

*Other Facilities Issues.* As called for by HB 853, high level representatives of MSDE, the Interagency Committee on School Construction (IAC) and BCPSS continue to meet on a quarterly basis to discuss facilities issues. In addition to these quarterly meetings, staff members from all three agencies have established monthly meetings to conduct follow up. More recent meetings have focused on the need for the System to develop or improve environmental safety, preventive maintenance, and inspection plans. We are extremely concerned about the slow pace of the System's efforts in this regard.

The monthly and quarterly meetings also address the status of capital projects that have received State planning approval. Again, we are quite anxious about the System's limited success in bringing closure to local issues and decisions affecting these projects. For example, reducing system-wide student capacity in existing facilities to better reflect current system-wide enrollment is critical to reducing school system costs, but has not progressed well (due to the current crisis, BCPSS recently disbanded the committee charged with considering school closings).

The difficulties associated with the scope definition of approved projects and school closings is related to the absence of a true facilities master plan that establishes the connection between educational objectives and facilities. Such a plan will provide both the vision to guide future facility decisions and define specific facility actions needed to implement the vision. BCPSS staff have begun the task of outlining the contents and timeframe for a draft plan. PSCP staff have made it clear that the effort toward generating this plan cannot displace the urgent need to resolve environmental safety, preventive maintenance, inspections, and school closure issues.


As a result of the State-wide Facilities Survey of Maryland Public Schools conducted by the Task Force to Study Public School Facilities, PSCP staff have begun working with BCPSS staff to address schools with inadequacies that might pose a safety or health threat to students or staff. In this regard, BCPSS staff have begun reviewing the priority for capital projects requested for local and/or State funding, methods for expediting projects, and implementing temporary actions until the capital project is completed.

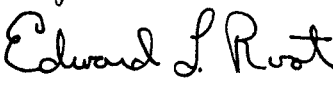
As a part of the deficit reduction actions, the number of staff dedicated to facilities planning has been reduced, putting more responsibility on the Senior Architect. In addition, the independent position of environmental safety officer is currently vacant and these responsibilities have been temporarily assigned to the Director of Maintenance.

***Conclusion***

In 1997, a broad array of partners made a commitment to give the children of Baltimore City a better education. Inside BCPSS, thousands of dedicated professionals – teachers, administrators and support personnel – are working hard every day to fulfill that pledge. The improvement in student achievement shows that they are beginning to meet with some success. The coming days, weeks and months will determine if the reform effort begun seven years ago can be salvaged and ultimately revitalized. We are prepared to dedicate all our energies to accomplish that goal.

Sincerely,

  
Nancy S. Grasmick  
State Superintendent of Schools

  
Edward L. Root  
President, Maryland State Board of Education

cc: The Hon. Robert L. Ehrlich, Jr., Governor of Maryland  
The Hon. Martin O'Malley, Mayor of Baltimore  
The Hon. Sheila Dixon, President Baltimore City Council  
The Hon. Paula Hollinger, Chair, Sen. Education, Health and Environmental Aff. Comm.  
The Hon. Ulysses Currie, Chair, Sen. Budget and Taxation Comm.  
The Hon. Norman H. Conway, Chair, House Appropriations Comm.  
The Hon. Sheila Hixson, Chair, House Ways and Means Comm.  
The Hon. William Donald Schaefer, Comptroller  
The Hon. Nancy K. Kopp, Treasurer  
James C DiPaula, Jr., Secretary of Maryland Department of Budget & Management  
Dr. Patricia Welch, Chair, Baltimore City Board of School Commissioners  
Dr. Bonnie Copeland, CEO, Baltimore City Public Schools

Attachment I: BCPSS 2003 Annual Report

Attachment II: Memorandum of Understanding between BCPSS and the City of Baltimore

Attachment III: History of the BCPSS Deficit

Attachment IV : Report of the Greater Baltimore Committee / Presidents' Roundtable (July 2003)

Attachment V: Systems Review Report of Ernst & Young (February 2004)



## **Attachment I**

Attachment I is the BCPSS 2003 Annual Report, including Master Plan Implementation Status Reports and BCPSS Audited Financial Statements prepared by Thompson, Cobb, Bazilio and Associates, P.C., for the year ended June 30, 2003. A copy of Attachment I is being provided by MSDE to Governor Ehrlich, President Miller, Speaker Busch, the Chairs of the Senate Budget and Taxation Committee, the Senate Education, Health and Environmental Affairs Committee, the House Appropriations Committee and the House Ways and Means Committee, and the Department of Legislative Services. Otherwise, copies of the report can be obtained by contacting Baltimore City Public Schools.

## **Attachment II**

Attachment II is a copy of the Memorandum of Understanding (MOU) between BCPSS and the City of Baltimore that was approved by the Baltimore City Board of Estimates on March 17, 2004. A copy of Attachment II is being provided by MSDE to Governor Ehrlich, President Miller, Speaker Busch, the Chairs of the Senate Budget and Taxation Committee, the Senate Education, Health and Environmental Affairs Committee, the House Appropriations Committee and the House Ways and Means Committee, and the Department of Legislative Services. Otherwise, copies of the MOU can be obtained by contacting Baltimore City Public Schools or the City of Baltimore.

# Attachment III

## HISTORY OF BCPSS DEFICIT (FY 1999 – FY 2003)

Fund	Actual Fiscal 1999	Actual Fiscal 2000	Actual Fiscal 2001	Actual Fiscal 2002	Actual Fiscal 2003
<b>BCPSS Revenue by Source - Excluding Capital Projects &amp; Debt Services</b>					
General City	\$201,565,112	\$204,065,029	\$207,228,258	210,259,915	\$207,400,244
Federal	79,828,185	117,448,004	138,570,896	143,643,538	118,765,865
State	536,592,305	538,980,637	553,715,507	572,756,134	602,207,126
Special/Grant	29,271,799	7,548,840	6,555,252		
Food Sales and Other Charges	5,289,594	5,845,220	4,597,871	4,860,465	4,539,517
Other	734,159	4,114,538	6,668,458	9,192,118	6,839,314
<b>Total Revenue</b>	<b>\$853,281,154</b>	<b>\$878,002,268</b>	<b>\$917,336,242</b>	<b>\$940,712,170</b>	<b>\$939,752,066</b>
<b>BCPSS Expenditures - Excluding Capital Projects &amp; Debt Services Current</b>	853,281,154	878,002,268	917,367,276	940,712,170	939,752,066
General fund operating programs	625,042,177	669,491,393	631,777,430	662,862,606	696,847,996
Grant Expenditures	183,013,882	199,117,752	243,333,680	253,954,774	246,503,292
Food Services	30,196,446	32,768,962	33,310,461	32,656,408	30,317,902
Debt Service					
Principal	6,379,916	6,092,114	7,309,086		1,082,260
Interest	228,411	516,211			885,618
<b>Total Expenditures</b>	<b>\$844,860,832</b>	<b>\$907,986,432</b>	<b>\$915,730,657</b>	<b>\$949,473,788</b>	<b>\$975,637,068</b>
Operating Transfers		\$(5,615,621)			
Settlement from the City			\$8,148,648		
Proceeds from leases				\$1,783,295	
Litigation Settlement				\$(2,787,219)	
<b>Excess (deficiency) of revenue and other sources over expenditure</b>	<b>844,860,832</b> <b>\$8,420,322</b>	<b>907,986,432</b> <b>\$(35,599,785)</b>	<b>916,319,707</b> <b>\$9,754,233</b>	<b>951,829,776</b> <b>\$(9,765,542)</b>	<b>977,989,274</b> <b>\$(35,885,002)</b>
<b>Fund Balance (Deficit)</b>	<b>\$13,406,148</b>	<b>\$(22,193,637)</b>	<b>\$(12,439,404)</b>	<b>\$(22,204,946)</b>	<b>\$(58,089,948)</b>

## HISTORY OF BCPSS DEFICIT (FY 2000 – FY 2003)

	<i>Cumulative Operating Surp. / [Def.] Beg. Yr.</i>	<i>Surp. / [Def.] During Year</i>	<i>Cumulative Operating Surp. / [Def.] End Yr.</i>	<i>Explanation of Change in Cumulative Operating Surplus / Deficit</i>
FY 2000	<b>\$13,406,148</b> ***** \$15,004,181 Gen'l Fund  [ \$1,598,033] Special Rev.	<b>[\$35,599,785]</b> ***** [\$33,882,133] Gen'l Fund  [ \$1,717,652] Special Rev.	<b>[\$22,193,637]</b> ***** [\$18,877,952] Gen'l Fund  [ \$3,315,685] Special Rev.	In year deficit of \$35.6m results from: <ul style="list-style-type: none"> <li>• Non-recurring costs for installation of new financial system and Y2K preparation.</li> <li>• Cost overruns in IT management contract with Information Control Systems (ICS)</li> <li>• Failure to access Title VI class-size reduction dollars [\$3.9m]</li> <li>• \$\$ reserved per dispute with Balto. City [\$15.6m].</li> <li>• Deficit in food services [\$1.7m]</li> <li>• Change in accounting practices to recognize accrued expenditures</li> </ul>
FY 2001	<b>[\$22,193,637]</b> ***** [\$18,877,952] Gen'l Fund  [ \$3,315,685] Special Rev.	<b>\$9,754,233</b> ***** \$10,009,335 Gen'l Fund  [ \$255,102] Special Rev.	<b>[\$12,439,404]</b> ***** [ \$8,868,617] Gen'l Fund  [\$3,570,787] Special Rev.	1 <sup>st</sup> Quarter variance report projects in-year deficit of \$16m. The following events address the deficit and generate an in-year surplus of \$9.7m: <ul style="list-style-type: none"> <li>• Additional remedy funds from State [\$5.2m]</li> <li>• Implementation of savings measures [\$10m]</li> <li>• Settlement of dispute with Balto. City [\$8m]</li> </ul>
FY 2002	<b>[\$12,439,404]</b> ***** [ \$8,868,617] Gen'l Fund  [\$3,570,787] Special Rev.	<b>[ \$9,765,542]</b> ***** [ \$9,755,405] Gen'l Fund  [ \$10,137] Spec. Rev.	<b>[\$22,204,946]</b> ***** [\$18,624,022] Gen'l Fund  [ \$3,580,924] Special Rev.	In-year deficit of \$9.7m results from: <ul style="list-style-type: none"> <li>• Overrun in projected costs of sum. sch. [\$3.9m]</li> <li>• Additional use of spec. ed. contracts [\$5.2m]</li> <li>• Costs overrun due to aging buildings [\$3.7m]</li> <li>• Settlement of miscellaneous litigation [\$2.7m]</li> <li>• Offset of positive variance in prescription costs [+\$5.1m]</li> </ul>
FY 2003	<b>[\$22,204,946]</b> ***** [\$18,624,022] Gen'l Fund  [ \$3,580,924] Special Rev.	<b>[35,885,002]</b> ***** [\$30,694,734] Gen'l Fund  [ \$5,190,268] Special Rev.	<b>[\$58,089,948]</b> ***** [\$49,318,756] Gen'l Fund  [ \$8,771,192] Special Rev.	1 <sup>st</sup> Quarter variance report projected an in-year deficit of \$31.2m, resulting from additional salary and benefit costs, contracted services, and the omission of HRMS cost from original FY 2003 Budget  On Jan. 14, 2003, the Board adopted a variety of cost containment measures including expenditure freeze, reduction in temps, funding of HRMS through capital lease. Some of these never happened. In meantime, other overruns occurred, completely erasing cost containment measures.  Initial close-out of FY 2003 showed approximately \$52m cumulative deficit. Audited financial statements (delivered December 31, 2003) rejected continued carry of \$6m receivable for third party billing, resulting in final cumulative deficit of \$58m.

Exhibit continued on next page

## HISTORY OF BCPSS DEFICIT (continued)

	<i>Cumulative Operating Surp. / [Def.] Beg. Yr.</i>	<i>Surp. / [Def.] During Year [GOAL]</i>	<i>Cumulative Operating Surp. / [Def.] End Yr. [GOAL]</i>	<i>Explanation of Change in Cumulative Operating Surplus / Deficit</i>
FY 2004	<b>[\$58,089,948]</b> ***** [\$49,318,756] Gen'l Fund [ \$8,771,192] Special Rev.	<div style="border: 1px solid black; padding: 5px; width: fit-content;"> <i>BCPSS' current minimal goal is to achieve an in-year balanced budget for FY 2004 and therefore</i> </div>		<p>For FY '04, the Board adopted a budget with revenues of \$914,572,540 and expenditures of \$893,631,165, yielding an in-year surplus of \$20,941,138. This would have achieved a corresponding \$21m reduction in the cumulative deficit. This assumed salary/benefit reduction, change to summer school design, a deferral of textbook adoption, 10-mo. contract for coaches and elimination of hundreds of positions through attrition.</p> <p>However, in October 2003, former Senator Robert Neall, recently on loan from JHH, determined that not only was the projected surplus failing to materialize, but in fact, the System was losing approximately \$2m per month on salaries (a payroll budgeted at \$542m was projected to reach \$566m) and that unchecked, the cumulative deficit could grow to more than \$72m. The following issues were responsible:</p> <ul style="list-style-type: none"> <li>• No monthly reports or closings</li> <li>• Reengineering did not occur</li> <li>• Transportation Issues – e.g., bell schedule was not changed as planned</li> <li>• Salary control:               <ul style="list-style-type: none"> <li>○ Temps not cut-off when projected</li> <li>○ Actual salaries not considered – used estimates</li> <li>○ Individuals paid out of general funds, not grants</li> <li>○ When grants expired, people were moved onto general funds instead of terminated</li> </ul> </li> </ul> <p>Upon the recommendation of Mr. Neall and Dr. Copeland, the Board has considered the following cost containment measures. Phases I and II have been largely implemented, with the effect that BCPSS will likely finish FY 2004 with the cumulative deficit no worse than at the beginning of the year (although the original goal of actually reducing the deficit will not be achieved). It is unlikely that Phase III will be implemented to the extent sufficient to generate the originally proposed in-year savings.</p> <p><b>Phase I (\$11.7m)</b></p> <ul style="list-style-type: none"> <li>• Elimination of 296 non-essential temporary employees (effective 12/5/03) (\$3.8m)</li> <li>• Elimination of surplus teachers and administrators based on FY 04 staffing model (effective 1/2/04)</li> <li>• Abolishment of all vacancies and elimination of discretionary hiring without CEO approval (effective 1/2/04)</li> <li>• Elimination of 371 central office staff positions (effective 1/2/04) (\$6.5m)</li> <li>• Termination of contracts of rehired, retired teachers and administrators (effective 1/2/04)(\$300K)</li> </ul> <p><b>Phase II (\$5m)</b></p> <ul style="list-style-type: none"> <li>• Elimination of surplus teachers at middle and high schools based on mid-year enrollment declines (pending) (50 positions) (\$800K)</li> <li>• Review of all non-salaried expenses, with emphasis on consultants and contracts for possible modification or termination (effective February 2004) (\$3m).</li> <li>• Further reduction of central office staff in Human Resources, Budget and Finance, Information Technology, and other positions under COO and CAO (effective February 2004)(47 positions) (\$900K)</li> <li>• Further reduction of temps as necessary.</li> </ul> <p><b>Phase III (\$13-16m)</b></p> <ul style="list-style-type: none"> <li>• Pay reduction for last half of year; or</li> <li>• Furlough of permanent staff. Each furlough day yields a \$2m savings; or</li> <li>• Eliminate additional 1000- 1200 positions</li> </ul>

#### **Attachment IV**

Attachment IV is the Report of the Greater Baltimore Committee / Presidents' Roundtable dated July 2003. A copy of Attachment IV is being provided by MSDE to Governor Ehrlich, President Miller, Speaker Busch, the Chairs of the Senate Budget and Taxation Committee, the Senate Education, Health and Environmental Affairs Committee, the House Appropriations Committee and the House Ways and Means Committee, and the Department of Legislative Services. Otherwise, copies of the report can be obtained by contacting the Greater Baltimore Committee, care of Donald Fry.

**Attachment V**

Attachment V is the Systems Review Report of Ernst & Young dated February 2004. A copy of Attachment V is being provided by MSDE to Governor Ehrlich, President Miller, Speaker Busch, the Chairs of the Senate Budget and Taxation Committee, the Senate Education, Health and Environmental Affairs Committee, the House Appropriations Committee and the House Ways and Means Committee, and the Department of Legislative Services. Otherwise, copies of the Executive Summary and of the full report can be obtained by contacting Ernst & Young, care of Cecil Flamer.